

PUBLIC DISCLOSURE

July 26, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MERRIMAC SAVINGS BANK

90240

**1 WEST MAIN STREET
MERRIMAC, MA 01860**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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TABLE OF CONTENTS

I.	General Information	1
II.	Institution Rating	
a.	Overall Rating	1
b.	Description of Institution.....	3
c.	Description of Assessment Area.....	4
d.	Conclusions with Respect to Performance Criteria	6

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act performance of **MERRIMAC SAVINGS BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency, as of **July 26, 2010**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income individuals, in a manner consistent with its resources and capabilities.

The assessment of Merrimac Savings Bank's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates.

This performance evaluation assesses the Bank's performance under the Small Institution Test, which includes an analysis of the distribution of home mortgage loans for 2008 and 2009. Aggregate HMDA lending data for 2008 is also presented and assists in deriving reasonable expectations for the Bank's performance. Aggregate data for 2008 is presented as this the most recent year available. Unless otherwise noted, this evaluation references the number, rather than the total dollar amount, of loans. The Bank's assessment area contains no low- or moderate-income census tracts; therefore limited emphasis was placed on the geographic distribution. Additionally, unless otherwise noted, demographics referenced are based on the 2000 census data.

The following summarizes the Bank's performance relative to the various performance criteria.

- The Bank's loan-to-deposit ratio is considered reasonable given the institution's size, financial condition, and assessment area credit needs. The average loan-to-deposit ratio during the period was calculated at 80.6 percent.
- The Bank originated a majority, 58.5 percent, of loans within its assessment area, by number. While the apparent declining trend is a concern, the Bank's ability to perform in a highly competitive lending environment is considered adequate.
- The Bank displayed an excellent penetration of loans to borrowers of different incomes. In lending to low- and moderate-income borrowers the Bank achieved market ranks of 4th and 7th, respectively.
- The Bank's assessment area contains no low or moderate income census tracts. A review of the Bank's lending performance within middle- and upper-income census tracts supports the Bank's overall rating.

- Fair Lending policies and procedures are considered adequate and the Bank has received no complaints pertaining to its CRA performance.

PERFORMANCE CONTEXT

Description of Institution

Merrimac Savings Bank is a state-chartered mutually owned financial institution, incorporated in 1871 under the laws of the Commonwealth of Massachusetts. The Bank is headquartered at One West Main Street in Merrimac, Massachusetts and has a full service branch located in Newton, New Hampshire. Offices hours are generally from 9:00 AM to 3:00 PM at the main location and 9:00 AM to 4:00 PM at the Newton branch. Both locations offer extended hours on Thursday and Friday evenings and Saturday hours, as well as extended drive up hours.

According to the Bank's June 30, 2010 Consolidated Reports of Condition and Income (Call Report) assets total \$63,888,000. Total loans as of this date stood at \$43,016,000 or 67.3 percent of total assets. The Bank offers residential mortgages, consumer lending products, commercial real estate and construction/builder programs.

The largest portion of the Bank's loan portfolio is comprised of first mortgage loans which represent 70.1 percent, followed by 1-4 family open-end lines of credit which account for 8.2 percent of the loan portfolio. Please refer to the following table for further information regarding the composition of the Bank's loan portfolio.

Table 1		
Loan Distribution at June 30, 2010		
Loan Type	Dollar Amount ('000)s	Percent of Total Loans
Closed-End Loans Secured by First Liens: 1-4 Family Residential	30,165	70.1
Open-End Lines of Credit Secured by 1-4 Family Residential	3,538	8.2
Consumer	2,825	6.6
Commercial and Industrial	2,571	6.0
Secured by Non-farm Non-residential Properties	1,348	3.1
Closed-End Loans Secured by Junior Liens: 1-4 Family Residential	1,019	2.4
Secured by Multi-Family (5 or more) Residential Properties	875	2.0
Construction and Land Development	674	1.6
Other Loans	11	0.0
Less: Unearned Income on Loans	10	NA
Total Loans	\$43,016	100

Source: 6/30/10 Call Report

The Division last examined the Bank for compliance with the CRA on December 6, 2004. That examination resulted in a CRA rating of "Satisfactory". Other than its small asset size, there are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

Description of Assessment Area

The CRA requires each financial institution to define an assessment area within which its CRA performance will be evaluated. An assessment area should consist of Metropolitan Statistical Areas ("MSA"s), Primary Metropolitan Statistical Areas (PMSAs), Metropolitan Divisions (MDs), or contiguous political subdivisions such as counties, cities, or towns. Further, an assessment area should not arbitrarily exclude any low- or moderate-income area(s) taking into account the institution's size and financial condition.

Merrimac Savings Bank defines its assessment area as the towns of Merrimac and West Newbury, Massachusetts and Newton, New Hampshire. Both Massachusetts towns are located in Essex County, while the town of Newton, New Hampshire is located in Rockingham County. All three towns are located in the Lawrence MA-NH MSA. The assessment area is comprised of 3 census tracts, two middle-income census tracts and one upper-income census tract. The assessment area as currently defined, meets the technical requirements of the regulation as it includes whole geographies and does not arbitrarily exclude low- or moderate-income areas.

According to 2000 US Census Data, Merrimac Savings Bank's assessment area has a total of 5,518 housing units. Housing stock within the assessment area is primarily one-to-four family residential dwellings at 90.5 percent, of which a majority, 80.2 percent, is owner-occupied. Only 13.6 percent are rental units, with a vacancy ratio of 2.3 percent. The following table displays certain characteristics of the housing stock in the Bank's assessment area. As previously mentioned, there are no low- or moderate- income census tracts within the Bank's assessment area; they are therefore excluded from the table.

Please refer to table two regarding other housing characteristics.

Table 2							
Selected Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Percentage of Total						Median Housing Value
	Census Tracts	House- holds	Housing Units	Owner- Occupied	Rental Units	Vacant Units	
Middle	66.7	72.7	73.0	70.8	86.4	75.6	181,232
Upper	33.3	27.3	27.0	29.2	13.6	24.4	313,000
Total or Median	100.0	100.0	100.0	100.0	100.0	100.0	216,812

Source: 2000 U.S. Census

As displayed in the table above, the majority of the assessment area's housing stock is located in middle-income census tracts. The table also displays the median housing values for the assessment area based on 2000 census data.

According to the 2000 Census data, the assessment area contains a total population of 14,576 individuals, 4,077 families and 5,140 households. Approximately 2.0 percent of the assessment area's population is unemployed; this is lower than both the State of MA (4.6 percent) and NH (3.8 percent).

Based on Census data and updated figures for HUD Adjusted Median Family Income and Median Housing Value, the median family income in the assessment area in 2008 and 2009 were \$79,967 and \$84,033, respectively. Of the total families in the assessment area, 12.8 percent are low-income families, 16.3 percent are moderate-income, 24.3 percent are middle-income and 46.6 percent are upper-income. Additionally, 2.4 percent of families have incomes

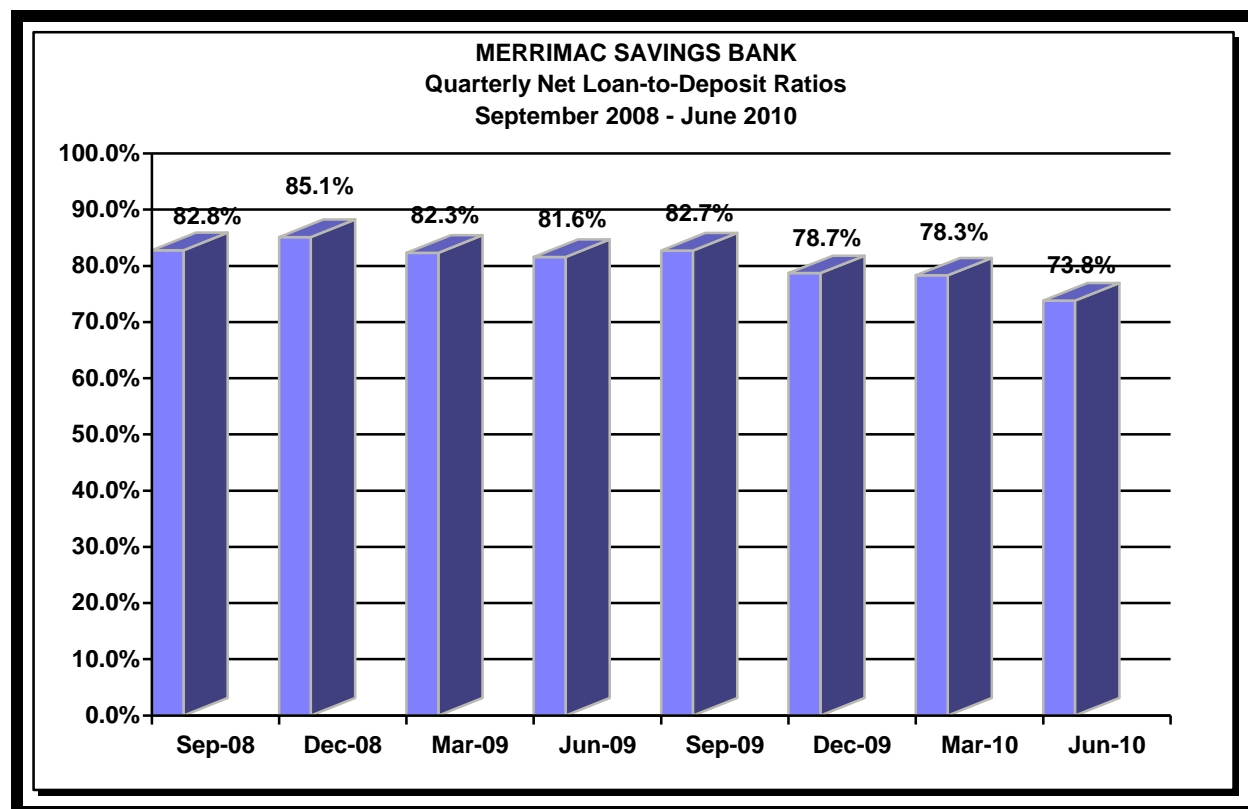
below the poverty level; the percentage of families with poverty-level incomes can be an indicator of a reduced capacity to borrow, which can effectively limit a financial institutions' ability to lend.

The Bank operates in a competitive environment. In 2008, there were 126 financial institutions that originated or purchased a home mortgage loan in the Bank's assessment area. Competition includes commercial banks, savings banks, credit unions, and mortgage lenders that operate in the area. Among the Bank's top competitors are Countrywide Home Loans, JPMorgan Chase Bank, NA and GMAC Mortgage LLC. These four institutions collectively account for 22.2 percent of the assessment area's market share. The Bank also faces competition from local institutions such as Institution for Savings and Newburyport Five Cents Savings Bank.

PERFORMANCE CRITERIA

LOAN TO DEPOSIT ANALYSIS

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans. The appropriateness of the Bank's loan-to-deposit ratio ("LTD") was evaluated. The average net LTD for the period reviewed was calculated at 80.6 percent. The following graph depicts the net loan-to-deposit ratios for each of the eight quarters under review.



As displayed in the above graph, while remaining at relatively high levels, the Bank's net loan-to-deposit ratio decreased over the time period. The decrease reflects the growth in the Bank's deposit base of 7.7 percent, outpacing the growth in net loans (3.9 percent). The high ratio was calculated at 85.1 percent as of December 31, 2008, while the low was calculated at 73.8 percent, as of June 30, 2010. Fluctuations in the Bank's LTD can also be attributed to Bank selling loans to the secondary market. During the time period under review, the Bank sold 18 loans totaling, \$5,445,000. No loans were sold in the last two quarters of 2008; the majority was sold in the last two quarters of 2009 and the second quarter of 2008.

The Bank's net loan-to-deposit ratio was compared to four banks with similar asset size and business focus. The ratios and asset sizes are based on the banks' June 30, 2010 Call Reports. Refer to the following table:

Table 3 - LTD Comparison		
Institution	Net LTD	Asset Size ('000's)
Chelsea-Provident Co-operative Bank	91.9%	\$47,580
Economy Co-operative Bank	83.1%	\$25,253
Merrimac Savings Bank	73.8%	\$63,888
Methuen Co-operative Bank	70.5%	\$80,015
Granite Savings Bank	54.6%	\$67,210

Based upon the Bank's asset size, its capacity to lend, and the credit needs of the assessment area, the Bank's net loan-to-deposit ratio is reasonable.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

This performance criterion determines what percentage of the Bank's lending occurs within the assessment area and evaluates its appropriateness. Refer to Table 4 below for specific information concerning the distribution of loans inside and outside the assessment area.

Table 4										
Distribution of Loans Inside and Outside the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans ('000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2008 HMDA	23	69.7	10	30.3	33	3,144	75.4	1,024	24.6	4,168
2009 HMDA	8	40.0	12	60.0	20	918	36.3	1,609	63.7	2,527
Total	31	58.5	22	41.5	53	4,062	60.7	2,633	39.3	6,695

As displayed in the table above, the Bank made 69.7 percent of its home mortgage loans within its delineated assessment area in 2008. The Bank's performance decreased in 2009 whereby only 40.0 percent of its HMDA loans were within the assessment area. As shown in the table above, the dollar volume of lending within the assessment area also decreased between 2008 and 2009.

Based on market share reports for 2008, the most recent year available, the Bank was ranked 7th out of the 126 lenders who originated or purchased a loan in the Bank's assessment area. Of the institutions that ranked above the Bank, four were large national mortgage companies. The two locally based institutions that ranked above the Bank were much larger in terms of assets. The declining trend is attributed to declining economic conditions and the level of competition in the assessment area. Further, the Bank's assessment area consists of only three municipalities, and there are certain limitations on the number of lending opportunities.

Despite the Bank's decline in 2009, overall the majority of HMDA lending during the timeframe was within the assessment area and the Bank's performance is considered reasonable.

DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The distribution of loans by borrower income was reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents, particularly low- and moderate-income residents.

The borrowers' reported incomes for 2008 and 2009 were compared to the median family income (MFI) information, as estimated by the Department of Housing and Urban Development (HUD), for the Peabody, MA MSA-MD (37764) and Rockingham County-Strafford County, NH MSA-MD (40484), is illustrated below. The MFI figures are based on 2000 US Census data information and have been annually adjusted for inflation and other economic events.

The following table breaks out the loans the Bank originated inside the assessment area in 2008 and 2009 categorized by the applicants' reported income and presents the distribution of families by income level as well as the aggregate market data for 2008.

Table 5 Distribution of HMDA Loans by Borrower Income								
Median Family Income Level	% Families	Aggregate Lending Data (% of #)	2008		2009		Total	
			2008	#	%	#	%	#
Low	12.8	3.9		4	17.4	2	25.0	6
Moderate	16.3	14.8		1	4.4	3	37.5	4
Middle	24.3	24.8		7	30.4	1	12.5	8
Upper	46.6	42.1		11	47.8	2	25.0	13
NA	0.0	14.4		0	0.0	0	0.0	0
Total	100.0	100.0		23	100.0	8	100.0	31

Source: 2008 and 2009 Bank HMDA Data, 2008 aggregate lending data, 2000 U.S. Census data

In 2008, the Bank made 4 loans to low-income applicants representing 17.4 percent of total loans in that year. The Bank's performance vastly exceeded the 2008 aggregate's percentage of 3.9 percent. In 2009, the Bank achieved a percentage of 25.0 percent to low-income borrowers, again exceeding the performance of the aggregate. While the Bank's performance is mitigated due to the very low volume of lending overall, which can skew the percentages; the Bank's ability to penetrate this market is shown by its market rank. In 2008, of the 126 lenders in the assessment area, the percentage of loans the Bank granted to low-income borrowers earned a market rank of 4th.

In lending to moderate-income borrowers, the Bank's performance is also considered strong. In 2008, 4.4 percent of the Bank's loans were made to moderate-income borrowers. While the Bank's percentage did not exceed the aggregate's percentage, the 1 loan to a moderate-income applicant attained the Bank a market rank of 7th. In 2009, the Bank's performance, by number and dollar amount, increased. The Bank achieved a percentage of 37.5 compared to the aggregate performance at 14.8 percent.

While it is noted that there is a very low volume of lending overall, particularly in 2009, the Bank's commitment to meeting the credit needs of low- and moderate-income borrowers is shown in 2008 market ranks and the percentage of loans in 2009 granted to low- and moderate-income borrowers. Overall, the Bank's penetration of lending to low- and moderate-income borrowers is excellent.

GEOGRAPHIC DISTRIBUTION OF LOANS

Lending activity within the assessment area was reviewed in order to determine the distribution of lending among the various census tracts. The assessment area is comprised of 3 census tracts: two middle-income and one upper-income census tracts.

The analysis of the geographic distribution of residential loans and a comparative analysis of 2008 HMDA aggregate data indicates that Merrimac Savings Bank's loans are reasonably dispersed throughout the assessment area.

Table 6 Distribution of Home Mortgage Loans by Census Tract Income Level								
Census Tract Income Level	% Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2008 Bank Data		2009 Bank Data		Bank Total	
		2008	#	%	#	%	#	%
Middle	73.0	68.0	22	95.7	8	100.0	30	96.8
Upper	27.0	32.0	1	4.3	0	0.0	1	3.2
Total	100.0	100.0	23	100.0	8	100.0	31	100.0

Source: 2008 and 2009 Bank HMDA Data, 2008 aggregate lending data, 2000 U.S. Census data

An analysis of the Bank's residential mortgage originations indicates that the substantial majority of loans, or 96.8 percent, were originated in middle-income census tracts. Due to the absence of low- and moderate-income geographies within the assessment area, the Bank's performance pursuant to this criterion was considered to weigh little in the overall rating of this examination.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

A review was conducted for compliance with fair lending regulations, and no evidence of disparate treatment or impact was revealed.

A review of the Division's records, as well as the Bank's Public CRA File did not reveal any complaints relating to the Bank's CRA performance since the prior evaluation. If such complaints should occur, the Bank has written complaint procedures in place.

Merrimac Savings Bank has a comprehensive Fair Lending Policy which addresses its efforts to eliminate discrimination in all aspects of lending. The policy is reviewed annually by the Board. The Bank provides fair lending training to all applicable employees as well as the Board on annual basis. In addition the Bank has a second review process in place.

Minority Application Flow

The Bank's Loan Application Registers for 2008 and 2009 were reviewed to determine if the application flow from the different racial and ethnic groups within the Bank's assessment area was reflective of the assessment area's demographics.

For the period reviewed, the Bank received no HMDA-reportable mortgage applications from racial or ethnic minorities within its assessment area. Review of the 2008 aggregate's performance level with regards to minority applications, as well as the assessment area's demographics revealed limited opportunity to penetrate this market. The aggregate received 0.7 percent for minorities by race, and 0.4 percent by ethnicity.

According to the 2000 Census Data, the Bank's assessment area contained a total population of 14,576 individuals, of whom 2.3 percent are minorities. While the Bank received a smaller percentage of applications from ethnic and racial minorities within its assessment area compared to the racial composition, the performance of the aggregate, and the low level of overall lending by the Bank, the Bank's performance is considered reasonable.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws chapter 167, section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 1 West Main Street, Merrimac, MA 01860."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.